

**WINCHESTER AIRPORT  
AUTHORITY, INC.**

**Winchester, Tennessee**

**Audit Report**

**June 30, 2013**

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**CERTIFIED PUBLIC ACCOUNTANTS**

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**Clark, Knies & Crenshaw, PLLC**

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**220 NORTH JEFFERSON STREET - WINCHESTER, TN 37398**

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**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Audit Report**  
**June 30, 2013**

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## **INTRODUCTORY SECTION**



Winchester Airport Authority, Inc.  
Winchester, Tennessee  
List of Principal Officials  
June 30, 2013

**Appointed by Winchester City Council:**

Chairman  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member

Carey Wofford  
Jeffrey Smith  
Carrie McClain  
Duff Zimmerman  
Don Bean  
Odell Ray  
Wayne Hart

**Appointed:**

Manager

Zachary Colescott



## **FINANCIAL SECTION**



# CLARK, KNIES & CRENSHAW, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
220 North Jefferson Street, Winchester, TN 37398

Members of American Institute  
of Certified Public Accountants

Members of Tennessee  
Society of CPA's

Coyle O. Clark  
Robert C. Knies  
Heather H. Crenshaw

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## INDEPENDENT AUDITORS' REPORT

To the Board of Winchester  
Airport Authority, Inc.  
City of Winchester, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the Winchester Airport Authority, Inc., component unit of the City of Winchester, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Winchester Airport Authority, Inc., component unit of the City of Winchester, Tennessee, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1, the financial statements present only the Winchester Airport Authority, Inc. and do not purport to, and do not present fairly the financial position of the City of Winchester, Tennessee, as of June 30, 2013, and the changes in its financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this manner.



## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Winchester Airport Authority, Inc., component unit of the City of Winchester, Tennessee's basic financial statements. The introductory section and the accompanying financial information listed as other supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the aforementioned information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2013, on our consideration of the Winchester Airport Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Winchester Airport Authority, Inc.'s internal control over financial reporting and compliance.



Clark, Knies & Crenshaw, PLLC  
Winchester, Tennessee  
December 15, 2013



# **WINCHESTER AIRPORT AUTHORITY, INC.**

**420 Aviation Drive  
Winchester, TN 37398**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Winchester Airport Authority, Inc. (the Airport), we offer readers of the Airport's financial statements this narrative overview and analysis of the financial activities of the Winchester Airport Authority, Inc., for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements and accompanying notes to the financial statements. The Airport is a component unit of the City of Winchester, Tennessee. Accordingly, this report contains only the activities considered to be part of the "reporting entity" of the Airport in compliance with authoritative criteria.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Airport exceeded its liabilities at the close of the most recent fiscal year by \$3,391,046. Of this amount, \$433,548 (unrestricted net position) may be used to meet the Airport's ongoing obligations. The Airport's total net position increased by \$233,665.
- The Airport had a net operating loss of \$407,873 in 2013 versus \$212,208 in 2012.
- The operating expenses in 2013 were \$146,457 higher than 2012 expenses primarily due to the hiring of a part-time employee, a one-time insurance payment to cover an accident cost, the painting of a storage structure, a project to repair and seal the runway, as well as the normal rise in costs due to utilities and maintenance.
- Operating revenues decreased \$49,208 related to a decrease in fuel sales, as well as decreased traffic through the airport over the previous year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Airport's financial condition and performance. The financial statements and supplementary information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary information section, and 4) the internal control and compliance section. The introductory section includes the list of principal officials. The financial section includes the MD&A, the independent auditors' report, and the basic financial statements with accompanying notes. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance, schedule of findings and responses, and prior year findings. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

An Enterprise Fund is used to account for the operations of the Airport. The financial statements of the Airport report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The *Statement of Net Position* presents the financial position of the Airport on a full accrual historical cost basis. The statement includes all of the Airport's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Airport's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Airport, and assessing the liquidity and financial flexibility of the Airport.



The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Airport's operations and can be used to determine whether the Airport has successfully recovered all of its costs. This statement also measures the Airport's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event or when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of the material data provided in the statements. The notes present information about the Airport's accounting policies, significant account balances and activities, material risks, commitments, contingencies and subsequent events, if any.

## FINANCIAL ANALYSIS

One of the most important questions asked about the Airport's finances is "Is the Airport, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Airport's activities in a way that will help answer this question. These two statements report the net position of the Airport and the changes in the net position. Net position is one way to measure the financial health or financial position of the Airport. Over time, increases or decreases in the Airport net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**NET POSITION** - The Airport's total net position increased by \$233,665 in 2013. The table below provides a summary of the Airport's Statement of Net Position.

### Condensed Statement of Net Position

	6/30/2013	6/30/2012	Dollar Change	Percentage Change
Current and Other Assets	\$ 505,817	\$ 386,320	\$ 119,497	30.93
Capital Assets	2,957,498	2,783,048	174,450	6.27
Total Assets	<u>3,463,315</u>	<u>3,169,368</u>	<u>293,947</u>	9.27
Current Liabilities	<u>72,269</u>	<u>11,987</u>	<u>60,282</u>	502.89
Investment in Capital Assets	2,957,498	2,783,048	174,450	6.27
Unrestricted	433,548	374,333	59,215	15.82
Total Net Position	<u>\$ 3,391,046</u>	<u>\$ 3,157,381</u>	<u>\$ 233,665</u>	7.40

The 502.89% increase in Current Liabilities is the result of a large increase in ongoing grant expenses that were not present the previous year.



CHANGES IN NET POSITION – While the Statement of Net Position shows the change in financial position of the Airport, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. Changes in the Airport's net position can be determined by reviewing the condensed Statement of Revenues, Expenses, and Changes in Net Position as presented below.

### Condensed Statements of Revenues, Expenses, and Changes in Net Position

	6/30/2013	6/30/2012	Dollar Change	Percentage Change
Operating revenues	\$ 464,773	\$ 513,981	\$ (49,208)	(9.57)
Grant income	341,045	40,029	301,016	751.99
Transfer from primary government	297,457	230,150	67,307	29.24
Investment income	892	1,500	(608)	(40.53)
Gain on sale of assets	-	250	(250)	(100.00)
Miscellaneous income	2,144	3,701	(1,557)	(42.07)
Total revenues	<u>1,106,311</u>	<u>789,611</u>	<u>316,700</u>	40.11
Cost of sales and service	366,600	374,245	(7,645)	(2.04)
Operations and maintenance	434,837	277,443	157,394	56.73
Depreciation expense	71,209	74,501	(3,292)	(4.42)
Total expenses	<u>872,646</u>	<u>726,189</u>	<u>146,457</u>	20.17
Changes in net position	233,665	63,422	170,243	268.43
Beginning net position	3,157,381	3,093,959	63,422	2.05
Ending net position	<u>\$ 3,391,046</u>	<u>\$ 3,157,381</u>	<u>\$ 233,665</u>	7.40

Operating revenues showed a 9.57% decrease from 2012 to 2013 related to a decrease in jet fuel sales. Grant income increased \$301,016 due to an increase in the amount of projects undertaken. Transfers from the City of Winchester are up due to capital outlay transfers received and increased operating transfers. Cost of sales and service is down 2.04% from prior year due to an overall decrease in fuel sales for the fiscal year. Operating expenses increased from 2012 to 2013 primarily due to the hiring of a part-time employee, a one-time insurance payment to cover an accident cost, the painting of a storage structure, a project to repair & seal the runway, as well as the normal rise in costs due to utilities and maintenance. Overall, the increase in ending net position of 7.40% from 2012 to 2013 is related primarily to the influx of additional grant monies.

### CAPITAL ASSETS

The Airport's investment in capital assets for its activities as of June 30, 2013, amounts to \$2,957,498 (net of accumulated depreciation). This investment in capital assets includes land, easements, buildings, leasehold improvements, furniture and equipment. The total increase in the Airport's investment in capital assets, excluding accumulated depreciation, for the current fiscal year was approximately \$245,000.

Major capital asset events during the current fiscal year include the following:

- Ground Communications Outlet - \$9,400.
- Apron Expansion Engineering - \$38,500.
- Access Road Relocation/Taxiway Extension Engineering - \$197,000.



The following table summarizes the Airport's capital assets, net of accumulated depreciation, and changes therein for the year ended June 30, 2013.

#### Capital Assets, net of Accumulated Depreciation

	6/30/2013	6/30/2012	Dollar Change	Percentage Change
Land and easements	\$ 1,336,010	\$ 1,336,010	\$ -	0.00
Construction in progress	251,566	15,270	236,296	1547.45
Buildings, structures and improvements	1,311,590	1,367,802	(56,212)	(4.11)
Furniture, machinery and equipment	58,332	63,966	(5,634)	(8.81)
Total capital assets	<u>\$ 2,957,498</u>	<u>\$ 2,783,048</u>	<u>\$ 174,450</u>	6.27

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Airport anticipates the following projects during the 2013 – 2014 fiscal year:

- Obstruction Clearing and Easement Acquisition
- T-Hangar Site Preparation and Construction
- Land Acquisition

The Airport is utilized by a diverse group of users, both private and commercial. Fuel sales are a majority of the Airport's revenue and cost fluctuates with the market. The Airport is a component unit of the City of Winchester, Tennessee, thus its growth and prosperity is dependent on the City. In addition, the Airport receives a limited number of recurring and non-recurring grants from both State and Federal government agencies. These factors were considered in preparing the Airport's budget for the 2013 – 2014 fiscal year.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Airport's finances for all those with an interest in the Airport's finances and to demonstrate the Airport's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Airport Manager, 420 Aviation Drive, Winchester, TN 37398.



## BASIC FINANCIAL STATEMENTS



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Statement of Net Position**  
**June 30, 2013**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$	116,998
Certificate of deposit		100,000
Accounts receivable		16,083
Grants receivable		94,622
Other receivables		1,386
Inventory		58,588
Prepaid expenses and deposits		118,140
Total current assets		<u>505,817</u>

**CAPITAL ASSETS:**

Land and easements	\$	1,336,010	
Buildings, structures and improvements		1,628,853	
Furniture, machinery and equipment		178,821	
Construction in progress		251,566	
Accumulated depreciation		<u>(437,752)</u>	
Total capital assets			<u>2,957,498</u>
Total assets			<u><u>\$ 3,463,315</u></u>

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES:**

Accounts payable	\$	63,051
Accrued expenses and taxes		9,218
Total current liabilities		<u>72,269</u>

**NET POSITION:**

Investment in capital assets	\$	2,957,498	
Unrestricted		<u>433,548</u>	
Total net position			<u>3,391,046</u>
Total liabilities and net position			<u><u>\$ 3,463,315</u></u>

See accompanying notes to financial statements.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2013**

<b>OPERATING REVENUES:</b>	
Fuel sales	\$ 446,077
Hanger rent	10,893
Other sales and service revenue	<u>7,803</u>
Total operating revenues	<u>464,773</u>
<b>EXPENSES:</b>	
Cost of sales	366,600
Utilities	22,350
Salaries and wages	123,942
Communications	5,978
Advertising and public notices	1,023
Insurance	22,509
Taxes and licenses	10,361
Repairs, maintenance and mowing	43,952
Dues and subscriptions	4,816
Other contractual services	142,658
Supplies	7,770
Small items of equipment	6,664
Travel and meals	10,306
Credit card fees	11,071
Auto expenses	1,308
Depreciation	71,209
Miscellaneous	<u>20,129</u>
Total expenses	<u>872,646</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u><b>(407,873)</b></u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>	
Operating grants	120,553
Investment income	892
Miscellaneous income	<u>2,144</u>
Total non-operating revenues (expenses)	<u>123,589</u>
<b>CAPITAL CONTRIBUTIONS</b>	
Capital grants	<u>220,492</u>
<b>LOSS BEFORE TRANSFERS</b>	(63,792)
<b>CAPITAL TRANSFERS FROM PRIMARY GOVERNMENT</b>	98,770
<b>OPERATING TRANSFERS FROM PRIMARY GOVERNMENT</b>	<u>198,687</u>
<b>CHANGE IN NET POSITION</b>	233,665
<b>NET POSITION - JULY 1, 2012</b>	<u>3,157,381</u>
<b>NET POSITION - JUNE 30, 2013</b>	<u><u><b>\$ 3,391,046</b></u></u>

See accompanying notes to financial statements.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 464,162
Cash payments to suppliers for goods and services	(740,977)
Cash payments to employees for services	(123,590)
Net cash provided (used) by operating activities	<u>(400,405)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Operating grants received	126,273
Operating transfers from primary government	198,687
Miscellaneous non-operating income	2,144
Net cash provided (used) by non-capital financing activities	<u>327,104</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(245,659)
Capital transfers from primary government	98,770
Capital grants received	146,093
Net cash provided (used) by capital and related financing activities	<u>(796)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received	892
Purchase of certificate of deposit	(49,249)
Net cash provided (used) for investing activities	<u>(48,357)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(122,454)</b>
<b>CASH AND CASH EQUIVALENTS AT JULY 1, 2012</b>	<b><u>239,452</u></b>
<b>CASH AND CASH EQUIVALENTS AT JUNE 30, 2013</b>	<b><u>\$ 116,998</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income (loss)	\$ (407,873)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	71,209
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(610)
(Increase) decrease in other receivables	(1,228)
(Increase) decrease in prepaid expenses and deposits	(91,037)
(Increase) decrease in inventory	(31,148)
Increase (decrease) in accounts payable	60,170
Increase (decrease) in accrued expenses and taxes	112
Total adjustment	<u>7,468</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>\$ (400,405)</u></b>

See accompanying notes to financial statements.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Winchester Airport Authority, Inc. (the Airport) is a component unit of the City of Winchester, Tennessee and is included in the City's combined financial statements. The Airport Authority was established to finance, develop and operate the Winchester Airport. The Airport is managed by a seven-member board that is appointed by the City Council. The City approves the operating budget of the Authority for the provision of capital and operating subsidies. The Authority utilizes the land, buildings, improvements, and equipment owned by the City. The City does not charge the Authority any rent for the use of these assets whose estimated original cost is \$ 2,877,226. The maintenance for these assets is the responsibility of the Airport.

**Measurement Focus, Basis of Accounting and Basis of Presentation**

Enterprise funds are a type of proprietary fund and, as such, are reported in accordance with generally accepted accounting principles for proprietary funds as defined by the *Governmental Accounting Standards Board (GASB)*. Proprietary fund types are reported using the *economic resources* measurement focus and the accrual basis of accounting. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, whether or not cash is received or paid out at that time.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Airport are charges to customers for sales and services. Operating expenses for the Airport include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Airport's policy to use restricted resources first, then unrestricted resources as needed.

**Assets, Liabilities and Net Position**

**Cash and Cash Equivalents** – Cash and cash equivalents are stated at cost and consist primarily of cash on hand, demand deposits, and savings accounts. For purposes of the statement of cash flows, the Airport considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Inventories and Prepaid Items** – Inventories are recorded at cost using the weighted average method. Inventories consist of fuel and other items held for resale. The cost is recorded as an expenditure at the time individual inventory items are sold rather than when purchased. Prepaid items represent payments to vendors that reflect costs applicable to future periods.

**Trade Receivables** – Trade receivables result from unpaid billings for goods and services to customers. There is no allowance for uncollectible customer accounts. A bad debt expense is recognized when a customer's account is determined to be uncollectible. Bad debt expense for the current year was \$ 0.

**Capital Assets** - Capital assets, which include property, plant and equipment, and construction in progress are recorded at historical cost or estimated historical cost if purchased or constructed. The Airport has established a capitalization threshold of \$ 2,000 and an estimated useful life in excess of one year.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest costs were required to be capitalized during the current year.

Capital assets of the Airport are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40-60 years
Improvements other than buildings	15-30 years
Furniture, machinery, equipment and vehicles	3-10 years

Paid Time Off – Paid time off benefits provide full-time employees with paid time away from work that can be used for vacation, personal time, personal illness and any other time when employees need to be away from work. An employee may not request to carry over more than 40 hours of paid time off and, if approved, the employee may not request to carry over hours in the following year. Upon termination of employment, the Airport pays the employee for any earned and unused paid time off hours. The following schedule details how paid time off hours are earned.

<u>Years of Service</u>	<u>Days Earned</u>
Less than 180 days	0
180 days – 4 years	2 weeks per year
5-14 years	3 weeks per year
15 years and above	4 weeks per year

Net Position – The Airport classifies its assets into three components in accordance with GASB Statement No. 63 – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt and deferred inflows of resources related to the acquisition, construction or improvement of those assets.

Restricted – Restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – Amounts not required to be reported in the other components of net position.

Net Position Flow Assumption - Sometimes the Airport will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Airport's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Revenues, Expenditures and Expenses**

Grants and Capital Contributions – The Airport receives grant revenues from various federal and state agencies. The Airport reports operating grants in the Statement of Revenues, Expenses and Changes in Net Position under non-operating revenues and expenses. Capital contributions, including capital grants, are reported as a separate line item after non-operating revenues and expenses.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Impact of Recently Issued Accounting Pronouncements - In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the Airport's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the Airport had no deferred outflows or deferred inflows of resources.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012; however, the Airport has implemented in the period presented here. The adoption of GASB 65 had no impact on the Airport's financial statements.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budget – Management must submit an annual operating budget to the Board of the Winchester Airport Authority, Inc. for approval. The approved budget is then submitted to the Winchester City Council for approval of requested operating and capital appropriations from the City. The Authority is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the financial statements. Unexpended appropriations lapse at year-end.

**NOTE 3 – DEPOSITS**

Deposits - Custodial credit risk is the risk that in the event of bank failure the Airport's deposits may not be returned to it. The Airport does not have a deposit or investment policy for custodial credit risk; however, State statutes require governmental entities to either meet the deposit and collateralization regulations under Tennessee Code Annotated Title 9, Chapter 4, Parts 1 and 4, or as provided in the State of Tennessee's collateral pool. As of June 30, 2013, the carrying amount of the Airport's deposits was \$ 216,748, and the bank balance was \$ 217,678. The difference between the bank balance and carrying amount is due to outstanding checks and/or deposits in transit. None of the Airport's bank balance was exposed to custodial credit risk as uninsured or uncollateralized.

**NOTE 4 – RISK MANAGEMENT**

The Airport is exposed to various risks of losses related to worker's compensation claims; limited torts; theft of, damage to and destruction of assets; errors and omissions, etc. The Airport decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for certain of these areas. The Airport joined the Tennessee Municipal League Risk Pool (the Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The Airport pays annual premiums to the Pool for auto, workers' compensation, errors or omissions, and property and crime policies. The Airport's premiums are calculated based on its prior claim history. The Airport continues to carry commercial insurance for all other risks of loss, including general liability for premises and operations and environmental liability coverages. There have been no significant reductions in coverage from the prior year. Additional coverage was obtained in light of a claim in the current year that exceeded coverage by \$ 17,450.87 as reflected in miscellaneous expense on the financial statements.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Deductions	Balance 6/30/2013
Capital assets not being depreciated:				
Land and easements	\$ 1,336,010	0	0	1,336,010
Construction in progress	15,270	236,296	0	251,566
Total capital assets not being depreciated	<u>1,351,280</u>	<u>236,296</u>	<u>0</u>	<u>1,587,576</u>
Capital assets being depreciated:				
Buildings, structures and improvements	1,628,853	0	0	1,628,853
Furniture, machinery, equipment and vehicles	169,458	9,363	0	178,821
Total capital assets being depreciated	<u>1,798,311</u>	<u>9,363</u>	<u>0</u>	<u>1,807,674</u>
Less accumulated depreciation for:				
Buildings, structures and improvements	261,051	56,212	0	317,263
Furniture, machinery, equipment and vehicles	105,492	14,997	0	120,489
Total accumulated depreciation	<u>366,543</u>	<u>71,209</u>	<u>0</u>	<u>437,752</u>
Total capital assets being depreciated, net	<u>1,431,768</u>	<u>(61,846)</u>	<u>0</u>	<u>1,369,922</u>
Total capital assets, net	<u>\$ 2,783,048</u>	<u>174,450</u>	<u>0</u>	<u>2,957,498</u>

Total depreciation for the year ended June 30, 2013 was \$ 71,209.

**NOTE 6 – CONTINGENT LIABILITIES AND LOSSES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time; the Airport's management expects such amounts, if any, to be immaterial.

As of June 30, 2013, the Airport was involved in various condemnation suits with nearby landowners. No settlements have been finalized and the potential costs and reimbursements to the Airport cannot be determined.

**NOTE 7 – TRANSFERS FROM PRIMARY GOVERNMENT**

The Airport receives both operating and capital outlay funding from the City of Winchester, Tennessee. Operating transfers occur automatically each month based on the amount budgeted and totaled \$ 198,687 in 2013. Capital outlay transfers occur as they are requested by the Airport for specific capital outlay projects and totaled \$ 98,770 in 2013. A major reduction of funding from the City would have a material effect on the financial position of the Airport.



## **OTHER SUPPLEMENTARY INFORMATION SECTION**



**WINCHESTER AIRPORT AUTHORITY**  
**Winchester, Tennessee**  
**Schedule of Expenditures of State Financial Assistance**  
**Year Ended June 30, 2013**

CFDA Number	State Grant Number	Program Name	Grantor	Balance 6/30/2012 Payable (Receivable)	Cash Receipts	Expenditures	Balance 6/30/2013 Payable (Receivable)
Joint Federal Awards and State Financial Assistance:							
20.106	AERO-13-150-00	Apron Expansion	TN Dept. of Transportation	\$ 0	11,700	38,500	(26,800)
Total Joint Federal Awards and State Financial Assistance				\$ 0	11,700	38,500	(26,800)
State Financial Assistance:							
N/A	AERO-12-165-00	Pavement Crack Seal	TN Dept. of Transportation	\$ (10,674)	128,732	118,058	0
N/A	AERO-12-166-00	EA & Pre-engineering for access road relocation	TN Dept. of Transportation	(15,270)	92,500	77,230	0
N/A	AERO-13-219-00	Access Road Relocation/ Taxiway Extension	TN Dept. of Transportation	0	57,563	120,432	(62,869)
N/A	AERO-M13-334-00	2013 Maintenance	TN Dept. of Transportation	0	9,347	14,300	(4,953)
Total State Financial Assistance				(25,944)	288,142	330,020	(67,822)
Total Federal and State Awards				\$ (25,944)	299,842	368,520	(94,622)

**Basis of Presentation:**

Note 1: The accompanying Schedule of Expenditures of State Financial Assistance summarizes the expenditures of the Winchester Airport Authority, Inc. under programs of the state government for the year ended June 30, 2013. The schedule is presented on the same basis of accounting as the Winchester Airport Authority, Inc.'s basic financial statements.

Note 2: The local Grantee match portion returned is included in cash receipts.

See independent auditors' report.



## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Winchester  
Airport Authority, Inc.  
City of Winchester, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Winchester Airport Authority, Inc., component unit of the City of Winchester, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements and have issued our report thereon dated December 15, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Winchester Airport Authority, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2013-01 and 2013-02, that we consider to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Winchester Airport Authority, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Winchester Airport Authority, Inc. in a separate letter dated December 15, 2013.



### **Winchester Airport Authority, Inc.'s Response to Findings**

Winchester Airport Authority, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Winchester Airport Authority, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clark, Knies & Crenshaw, PLLC".

Clark, Knies & Crenshaw, PLLC  
Winchester, Tennessee  
December 15, 2013



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Schedule of Findings and Responses**  
**June 30, 2013**

**I. SUMMARY OF AUDIT RESULTS**

- A. Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.
- B. During the audit of the financial statements, two significant deficiencies in internal control were disclosed.
- C. No instance of noncompliance or other matters was disclosed.

**II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES**

**2013-01 – TRAVEL AND MEAL EXPENSE**

CONDITION: Multiple instances were identified whereby the travel policy was not followed, including reimbursement of per diem for meals when they were included in the conference fee as well as payment and reimbursement of an expense when a detailed receipt and proper documentation was not provided as required. In addition, non-Airport personnel expenses were paid by the Airport. Finally, expenses were incurred for which we question if there was a valid municipal purpose.

CRITERIA: The Airport adopted a Travel Policy in April 2011 that addresses many of the issues noted. Regarding spousal meals and conference expenses paid by the Airport, Tennessee Attorney General Opinion 90-12 states, "It is the opinion of this Office that the expenditures of municipal funds to pay the travel expenses for spouses of city officials and employees does not appear to further a valid municipal purpose." Section 6-56-112, Tennessee Code Annotated, requires that "All expenditures of money made by a municipality must be made for a lawful municipal purpose."

EFFECT: The Airport incurred expenses for which it should not have been liable.

RECOMMENDATION: As we have noted in the past, the Airport should diligently ensure that all expenditures for travel and meals are carefully evaluated as to their business purpose, and made only when necessary to conduct and manage Airport business. The Authority should ensure that all procedures required by the travel expense policy are followed. In addition, all expense reimbursement requests should be closely examined to ensure the validity of the expenses paid by the Airport. Unallowable expenses that do not meet the Policy requirements should not be reimbursed or paid by the Airport. The Airport should request immediate reimbursement from applicable officials and employees for unallowable expenses charged to the Airport.

RESPONSE: After coordinating with the Finance Officer for the City of Winchester, the Airport Authority has been fully reimbursed for all questionable travel payouts (as determined by the Finance Officer). The Airport Authority members have been educated on what the criteria are for acceptable expenses, as well as reimbursement. Moving forward the Airport Manager will coordinate with the Finance Officer on all travel reimbursement requests.



**WINCHESTER AIRPORT AUTHORITY, INC.**  
**Winchester, Tennessee**  
**Schedule of Findings and Responses**  
**June 30, 2013**

(Continued)

**2013-02 – GRANT DOCUMENTATION AND RECONCILIATION**

CONDITION: During our audit of the grant funds of the Airport, we noted that there were no reconciliations of grant receivables, prepaids, revenues and expenditures claimed on the grant to the appropriate general ledger accounts. The lack of reconciliation led to significant errors in the grant-related accounts.

CRITERIA: Grant receivables, prepaids, revenues and expenditures are not being reconciled with the grant documentation that represents the actual grant activity.

EFFECT: Some expenditures were not recorded in the proper place in the general ledger. Receivables, prepaids, revenues and expenditures on the general ledger did not agree with grant documentation. Failure to record this information properly results in information being reported inaccurately and potentially in the wrong fiscal year.

RECOMMENDATION: The Airport Manager, or another designated employee, should reconcile the grant documentation with the information recorded in the general ledger to ensure accurate reporting.

RESPONSE: Now that we have been instructed on how and where certain expenditures should be placed, we will endeavor in the future to properly classify expenditures.